

**GOVERNMENT POLICIES AND PERFORMANCE OF SMALL AND MEDIUM
ENTERPRISES IN KENYA: A CASE STUDY OF EMBU TOWN**

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**RESEARCH PROJECT SUBMITTED TO THE SCHOOL OF MANAGEMENT AND
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DECLARATION

This project is my original work and has not been presented for a degree in any other University

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Signature

Date

MARTHA LILY NJERI NJERU

This project has been submitted for examination with my approval as University Supervisor

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.....

Signature

Date

PETER KITHAE

DEDICATION

I would like to dedicate this research project to my family for their tireless efforts, spiritual and moral support through the entire research.

ACKNOWLEDGEMENT

Special thanks to my Almighty God for the strength, good health and divine protection throughout my research study. I also acknowledge my supervisor Peter Kithae for the full dedication and willingness to guide me and most of all being patient with me. I also acknowledge the Management University of Africa for providing resources that enabled me to carry out this research.

ABSTRACT

The general objective of this study was examine government policies and performance of small and medium enterprise in Kenya by focusing on Embu town. This study was guided by the following specific objectives: to establish the influence of taxation on the performance of Small and medium enterprises in Kenya, to examine the effect of licensing on the performance of Small and medium enterprises in Kenya, to identify the effect of training on the performance of Small and medium enterprises in Kenya and to determine the effect of capital financing on the performance of Small and medium enterprises in Kenya. The research will enable the policy makers to come up with a viable and focused entrepreneurship strategy that can help SME's access to credit facilities. The study will also generate empirical data and information beneficial to the Government and the University level. The research was conducted using descriptive research design. The accessible population was 150 where the researcher obtained the sample size. The sample size of the study was 45 respondents which was 30% of the target population as recommended by Mugenda and Mugenda (2013). Stratified random sampling was employed in the study. The researcher used questionnaires to collect data because they are simpler to formulate and permits greater depth of response when a respondent is allowed to give a personal response in case of unstructured (open ended) and structured (close ended) questions. Computer excel software program is used to enable analysis. The researcher assigned codes to the items in the questionnaires which were used to enter data into computer, distribution tables, pie charts and graphs were used to present data while frequencies and percentages obtained were used to answer the research questions. Percentages, tables and figures were emphasized because they analyzed, interpreted and conclusion and recommendations were made from the tables. Majority, 79% of the respondents indicated that there were tax incentives for consumers. The researcher found out that, majority of the employees indicated that the tax incentives on consumers was there hence the consumers paid taxes for the purchases they made in every business apart from pharmaceuticals which are tax free. Majority, 53% of the respondents indicated that licensing was very efficient for the business. This was a clear indication that licensing was appropriate for the running of the business since businesses without licenses were closed down. Majority, 74% of the respondents indicated that the level of performance was moderate. This was a clear indication that training had a positive impact on the business since it improved performance. Majority of the respondents 66% indicated that they discussed exhaustively with the proprietors/supervisors on financial performance. This was an indication that the financial performance of the SMESs was crucial since the respondents followed up their financial performance so as to identify if they are making profits or losses. The study concluded that the role of MSEs is critical in pushing the socio-economic development agenda of the country further. Therefore, alignment of the tax system to the environment specific MSE growth needs can be considered an important agenda for the policy makers. The study recommends that the for SMEs key considerations are to minimize administrative burden while ensuring compliance, including considering the drivers and impacts of operating in the informal economy. Without the active attitudes of the main recipients of the regulations it is impossible to increase the quality of law- making in Kenya.

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LIST OF ACRONYMS AND ABBREVIATIONS

GDP	Gross Domestic Product
GOK	Government of Kenya
ETR	Electronic Tax Register
SMEs	Small Medium Enterprises
SEPIP	Small Enterprise Policy Implementation Program
VAT	Value Added Tax
WHO	World Health Organization

OPERATIONAL DEFINATION OF TERMS

Financial Inclusion: This is about creating financial systems that support all people – especially those previously excluded – by providing access to financial services delivered in a convenient, reliable and affordable manner. It's elimination of price and non-price barriers to financial services (businessdictionary.com).

Asymmetric Information: The view that the borrower has more information than the lender on his ability to repay the loan, the viability of the project, and the use of the money being borrowed.

CHAPTER ONE

INTRODUCTION

1.0 Introduction

This chapter contains the background of the study, statement of the problem, research objectives, research questions, significance of the study, limitations of the study and the scope of the study.

1.1 Background of the Study

Reducing unemployment is one of the major challenges facing most governments in the world for decades to come. With an estimated 88 million young women and men worldwide unemployed, the need for employment creation efforts focusing on youth is undeniable (Mazzarol&Choo, 2003). A survey conducted by Morgan, Kaleka and Katsikeas (2004), indicates that youth are generally three and a half times more likely than adults to be unemployed. In 2015, approximately 660 million young people will either be not working or looking for work – an increase of 7.5 per cent over the number that was there in 2003(Mazzarol&Choo, 2003).

According to Collis and Montgome (2007), this challenge has its own specific dimensions and therefore requires targeted responses. Within the framework of potential efforts and strategies to boost employment and job creation for young people, entrepreneurship is increasingly accepted as an important means and a valuable additional strategy to create jobs and improve livelihoods and economic independence of young people (Mazzarol&Choo, 2003). It is an innovative approach to integrating youth into today's changing labor markets (Mazzarol&Choo, 2003).

Small and medium enterprises (SMEs) are widely recognized for their role in the social, political and economic development(Mazzarol&Choo, 2003). Their importance is particularly apparent in its ability to provide reasonably priced goods, services, income and employment to a number of people as observed by Kauffmann (2006). Nabintu (2013) note that while the contributions of small businesses to development are generally acknowledged, micro and small entrepreneurs face many obstacles that limit their long term survival and development. This is in line with Kenya National Bureau of Statistics (2012) report which indicated that, three out of five businesses fail within the first few months of operation. Therefore, there has been a growing concernand interest by the government and development agencies for the improved performance and growth of the micro and small enterprises(Mazzarol&Choo, 2003).

Lukacs (2011) further indicate that a significant landmark in the creation of an enabling environment for Small and medium enterprises was microenterprise statute 4 promulgated in 1984. For the first time, this law established the need for differential treatment of microenterprises in terms of their tax and labour obligations and in relation to access to credit and business development services(Mazzarol&Choo, 2003). Despite these efforts of the government to favor micro and small enterprise growth and formalization through tax alleviation and simplification of administrative and accounting procedures, the initial results in terms of formalization were not positive(Lukacs,2011).

According to Cardoza et al (2014), MSEs in Latin America that benefit from sound government policy frameworks, favorable environmental conditions, and well-designed assistance programmes are more likely to expand internationally. Also, Child and Lu (2012) found that firms from emerging and transition markets face different institutional constraints related to intervention by authorities and regulatory bodies in the decision making process, restrictions of information usually controlled by authorities, and access to public funding. The fact is that, in spite of public assistance programmes, MSEs remain small, fail to export, and experience higher transaction costs and relatively higher rates of business failure (World Bank, 2008).

The government of Tanzania formulates and implements various policies aimed at increasing job opportunities, development of infrastructure as well as income generation through the creation of new Small and medium enterprises and improving the performance and competitiveness of existing one (Oludele& Emilie, 2012). In Uganda, Johnson and Nino-Zarazua (2011) indicate that Small and medium enterprises(MSE) limited performance has been associated with limited access to finance, inadequate provision of public services, unfavorable system of taxation, high regulatory burden and corruption.

The current constitutional framework and the new Micro and Small Enterprise Act 2012 provide a window of opportunity through which the evolution of SMEs can be realized through the devolution framework (Lukacs, 2011). However, the impact of devolution of SMEs development depends on the architecture of the regulatory and institutional framework inclined to support SMEs in an economy (Lukacs, 2011). A study by Mazzarol and Choo (2003) observes that governments that are concerned with the promotion of small enterprises should

examine the impact of its policies and programmes on the small businesses. Lumpkin and Dess (2001) makes a similar observation that government regulation about wages, taxation, licensing and others are among the important reasons why the informal sector business develops. Without careful attention, government policies could crush the small business sector in any economy (Lukacs,2011).

In Kenya today, businesses employing between 1 to 99 people account for about 48 percent of all businesses; with a majority of these being managed or owned by the young people (25-34 years) (Bontis, Chong & Richardson, 2000). According to Government of Kenya (2007), three out of five of these businesses fail within the first Three years of operation and those that continue 80 percent fail before the fifth year. This failure of enterprises performance is marked by poor return and bankruptcy proceedings, (Jibrilla, 2013), having noted how important the contribution of SMEs sector is in Kenya; despite their poor performance. Leadership must be increased to effectively respond to the challenges of creating productive and sustainable employment opportunities in the country amongst the youths (Mohamed &Mnguu, 2014). Small and Medium Enterprises in Embu County

Initially, the informal sector was regarded as marginal and peripheral(Lukacs,2011). But with time, the sector expanded and became a source of livelihood and a potential taxpayer (Lukacs,2011). Tax base broadening would yield; increased tax revenue; and lessening of the tax burden (Lukacs,2011). It was not until 2007 when turnover tax was introduced through section 12C of the Income Tax Act and the Income Tax (Turnover Tax) 2007, Rules. The 2008/09 Report by KRA on tax collected during the period shows that these Rules have not been effective in the taxation of SMEs as the projected revenue from SMEs was not realized(Lukacs,2011).

Licensing can be defined as the giving of permission to someone or an entity so as to enable him or the entity to carry out some activities (Orbach, 2012). The party granting the license is known as the licensor while the party receiving the license is known as licensee. The license acts as an element of the agreement made by the two parties (Orbach, 2012). Governments issue licenses so as to permit businesses or individuals to partake activities that are usually forbidden (Orbach, 2012). The licensees have to pay fees for the licenses and prove that they are capable of conducting the said activity as per the rules laid out by the government (Orbach, 2012). Licenses

enable the government to stay informed about the activities being carried out by the investor and enable the government to set limitations and conditions (Orbach, 2012).

Upgrading the skills of all types of workers, including managers, is central to firm performance in knowledge-based economies (Lukacs,2011). The quality of management is particularly important for small and medium-sized enterprises (SMEs), which must be able to adapt quickly to evolving markets and changing circumstances, but which often have limited resources(Orbach, 2012). Capital is supplied through the business finance market in the form of bank loans and overdrafts; leasing and hire-purchase arrangements; equity/corporate bond issues; venture capital or private equity; asset-based finance such as factoring and invoice discounting, and government funding in the form of grants or loans(Orbach, 2012). However, not all business finance is external/commercially supplied through the market. Much finance is internally generated by businesses out of their own earnings and/or supplied informally as trade credit, that is, delays in paying for purchases of goods and services (Lukacs,2011).

Microfinance institutions recognize the importance of promoting SMEs as the basis of economic growth. It is estimated that there are about 2751 registered SMEs have between 5 and 50 employees in EmbuCounty (Embu County, 2015). It is on this basis that MFIs should create a platform for SMEs growth. The growth in SMEs should be encouraged and supported to bring about favorable economic growth and development, alleviate poverty and improve the standards of living at the County (Embu County, 2015).

Embu county government seeks to create an enabling business environment and institutional structures that are conducive to investments be it public or private (Embu County, 2015). The Government is geared to improving the policy framework for the private sector which is central to Development of EmbuCounty (Embu County, 2015). All businessmen and entrepreneurs must be accorded all necessary support in order for them to reap maximum profits from their businesses. The County Government demands all departments in the Embu County Government to improve, create and sustain conditions that are the conducive environment of doing business in the County (Embu County, 2015).

1.1.1 Taxation

Taxation is distinguished from other forms of payment, such as market exchanges, in that taxation does not require consent and is not directly tied to any services rendered. The government compels taxation through an implicit or explicit threat of force (Lukacs,2011). Taxation is legally different than extortion or a protection racket because the imposing institution is a government, not private actors. Tax systems have varied considerably across jurisdictions and time(Lukacs,2011). In most modern systems, taxation occurs on both physical assets, such as property, and specific events, such as a sales transaction. The formulation of tax policies is one of the most critical and contentious issues in modern politics (Lukacs,2011).

1.1.2 Licensing

A Licensing conformity is an agreement whereby a licensor grants the right to insubstantial possessions to another entity for a specified period, and in return, the licensor receives a royalty fee from the licensee. Intangible property includes patents, inventions, formulas, processes, designs, copyrights, and trademarks (Orbach, 2012).

1.1.3 Training

Human resource management regards training and development as a function concerned with organizational activity aimed at bettering the job performance of individuals and groups in organizational settings(Orbach, 2012). The field has gone by several names, including "Human Resource Development", "Human Capital Development" and "Learning and Development" (Orbach, 2012). Training and development can be described as "an educational process which involves the sharpening of skills, concepts, changing of attitude and gaining more knowledge to enhance the performance of employees"(Orbach, 2012).

1.1.4 Capital financing

Capital funding is the money that lenders and equity holders provide to a business. A company's capital funding consists of both debt (bonds) and equity (stock)(Orbach, 2012). The business uses this money for operating capital. The bond and equity holders expect to earn a return on their investment in the form of interest, dividends, and stock appreciation (Orbach, 2012).

1.2 Statement of the Problem

According to the economic survey of 2013, the Small and Medium Enterprise (SME) sector accounted for 74.2 percent of the total persons engaged in employment and contributed up to 18.4 percent of the country's GDP in 2013 (RoK, 2013). Further, the Economic Recovery Strategy for Wealth and Employment Creation 2003-2007 recognized the need to establish and maintain a conducive environment for the growth and transformation of SMEs into medium sized enterprises that have capacity to create more employment opportunities (RoK, 2017). Since inception, Kenya government has developed strategies and promotion programs aimed at improving economy by promoting small-scale enterprises (Ruirie, 2012).

Despite these initiatives, it was revealed that the established enterprises have a very low survival rate, with serious challenges leading to 60 percent failures in performance within the first three years of operation (Sharu&Guyo, 2015). This poor performance has hampered their ability to contribute to the growth of Kenya's GDP as required (Gichuke, 2013). It also makes them unable to compete with other larger businesses including multinational corporations, or take full advantage of the economy and access the global markets for profitability and sustainability (Gichuke, 2013).

County governments have come up with policies that increase the rate of taxation, changed the licensing procedures, and increased the training of entrepreneurs and policies related to entrepreneurs financing (Gichuke, 2013).

While national government financing shows high small business birth-rates, the business failure or stagnation is equally high. Despite many studies having been done in the past on performance of SMEs, (Gichuke, 2013; Ruirie, 2012), the effects of County government policies on Small and Medium Enterprises performance in Embu County have not been adequately identified and, hence the research gap this study aims to address (Gichuke, 2013). This study therefore seeks to investigate government policies and performance of small and medium enterprise in Kenya by focusing on Embu town.

1.3 General Objective

The general objective of this study was examine government policies and performance of small and medium enterprise in Kenya by focusing on Embu town.

1.3.1 Specific Objectives

This study was guided by the following specific objectives:-

- i. To find out the effect of taxation on performance of Small and medium enterprises in Kenya.
- ii. To examine the relationship between licensing and performance of Small and medium enterprises in Kenya.
- iii. To identify the effect of training on performance of Small and medium enterprises in Kenya.
- iv. To assess the effect of capital financing on performance of Small and medium enterprises in Kenya.

1.4 Research Questions

- i. To what extent does taxation influence performance of Small and medium enterprises in Kenya?
- ii. How does licensing influence performance of Small and medium enterprises in Kenya?
- iii. To what extent does training influence performance of Small and medium enterprises in Kenya?
- iv. What is the effect of capital financing on performance of Small and medium enterprises in Kenya?

1.5 Significance of the Study

1.5.1 Policy makers

The research will be significant to the policy makers to enable them come up with a practical and attentive free enterprise strategy that can help SME's access to credit facilities. The study will also generate empirical data and information beneficial to the Government and the University level.

1.5.2 Academicians and researchers

The research will also be significant to other researcher who might be interested in carrying out a study on government policies and performance of SMEs.

1.5.3 Research institutions

The research will contribute to the future research materials for the research institutions.

1.5.4 Financial institutions

The research will also be beneficial to financial institutions who might come up with products which are tailor made to fit into entrepreneurship financial needs.

1.5.5 Other Stakeholders

The research will also be significant to stakeholders like financial institutes, investors, shareholders, employees, pressure groups, etc., the research provides information for suggesting improvement in service delivery of the respective credit facilities providers in Kenya.

1.6 Scope of the Study

The research focused on government policies and performance of small and medium enterprises in Embu Town. This study is limited to Embu Town. The accessible population is 150 where the researcher drew the sample size. The sample size of the study is 45 respondents which is 30% of the target population. The study took three months to complete from July 2018 to September 2018.

1.7 Chapter Summary

This introductory chapter provided a background to the study; a statement of the research problem, objectives of the study, research questions, significance of the study ,scope and chapter summary. Finally, the chapter presented an overview of the chapters that follow and laid the foundation for this paper. The next chapter provides comprehensive literature on government policies and performance of small and medium enterprises in Kenya, a case study of Embu town.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter presents a review of literature on the effect of government policy on the performance of SMEs.

2.1 Theoretical Review

Social Systems Theory

Groups are conceived as entities that reasonably can be differentiated from their environment and have some kind of boundaries across which interactions take place with the environment (Morgan, Kaleka & Katsikeas, 2004). Transactions from the environment to the community systems are inputs while boundary management is important to sort acceptable inputs from other potential stimuli through coding (Collis & Montgomery, 2007). Most groups are open systems taking into account the possibilities for spontaneous internal action and other forms associated with living behavior (Collis & Montgomery, 2007). This theory forms the basis of this study since SMEs in this study are part of the functioning of street vendors (Morgan, Kaleka & Katsikeas, 2004). Their achievements of the goals SMEs are supported by the opportunities present both within and outside the markets' environment (Collis & Montgomery, 2007). These opportunities include accessibility to loans and other financial services, availability of market, education and training, technological advancement and infrastructure among other factors (Collis & Montgomery, 2007). The system comprises of the SMEs, suppliers and customers (Collis & Montgomery, 2007). The system is however governed by various regulations which include licensing (Collis & Montgomery, 2007).

Resource Based Theory

Organizations may experience scarcity in the supply of resources, and at the same time they have to maximize resources efficiently (Lumpkin & Dess, 2001). To overcome scarcity of resources, organizations may need to acquire complementary external resources and search for other capabilities (Bontis, Chong & Richardson, 2000). At the same time the organization can produce quality products without having to employ a large amount of people (Lumpkin & Dess, 2001). Normally, in SMEs there is a limited access to resources and ideas, hence outsourcing allows the organizations to gather new ideas and innovations (Lumpkin & Dess, 2001). It could also result in possible cash influx due to the transfer of assets to new provider (Lumpkin & Dess, 2001). In the light of the above, resource-based theory posits that it is possible for seeking resources from vendors to supplement in-house competencies, rather than total acquisition of the resources (Lumpkin & Dess, 2001).

The Resource-Based View of the firm suggests that performance is driven by the resource profile of the firm while the source of superior performance is embedded in the possession and deployment of distinctive resources that are difficult to imitate (Mazzarol & Choo, 2003). The resource-based view further stipulates the fundamental sources and drivers of firms' competitive advantage and superior performance is mainly associated with the attributes of their resources and capabilities which are rare, valuable, difficult to imitate and not substitutable (Mazzarol & Choo, 2003). Lumpkin and Dess (2001) argue that complementarity, scarcity, low tradability, inimitability, limited substitutability, appropriability, durability and the overlap with strategic industry factors constitute the key firm resources. Mazzarol and Choo (2003) argued that intangible assets such as market orientation, knowledge management and organizational learning allow firms to develop abilities that enhance competitive advantage leading to enhanced market performance (Mazzarol & Choo, 2003).

In this study, the resource based theory is used to explain the taxation tariffs in the county governments (Mazzarol & Choo, 2003). For them to increase their resources and capability, they need to reinvest their profits in their businesses (Mazzarol & Choo, 2003). However, high taxation tariffs would significantly reduce the business profits, which would subsequently reduce their profits and hence their resources (Mazzarol & Choo, 2003).

Human Capital Theory

Human Capital theory was proposed by Theodore Schultz in 1960s. Schultz argues that both knowledge and skill are a form of capital, and that this capital is a product of deliberate organizational growth (Mazzarol&Choo, 2003). The concept of human capital implies an investment in people through education and training (Bontis, Chong & Richardson, 2000). Schultz compares the acquisition of knowledge and skills to acquiring the means of production (Mazzarol&Choo, 2003). Schultz argues that investment in education and training leads to an increase in human productivity, which in turn leads to a positive rate of return and hence of growth of businesses as well as achievement of organizational objectives(Mazzarol&Choo, 2003). The theory stresses that investments by organizations in people will generate worthwhile returns (Rochaa, 2014).

The theory is associated with the resource based view of strategy(Rochaa, 2014). The theory proposes that sustainable competitive advantage is attained when the firm as a human resource pool that cannot be imitated or substituted by its rival(Mazzarol&Choo, 2003). For the employer investments in training and developing people is a means of attracting and retaining people (Mazzarol&Choo, 2003). Eniola and Entebang (2015) suggest that the general message in persuasive skills, knowledge and competences are key factors in determining whether organizations and firms will prosper (Mazzarol&Choo, 2003). In that highly educated staffs leverage their knowledge and the social contacts generated through the education system to acquire resources required to perform effectively (Rochaa, 2014). The specific human capital can be attained through precise trainings and previous experience(Rochaa, 2014). More focused entrepreneurial training can provide managers, owners and staff with specific knowledge, compared to a formal education (Rochaa, 2014).

Pecking Order Theory

The pecking order theory of capital structure hypothesizes that the primary determinant of firms financing decisions is the problem of information asymmetry about firm quality between firm insiders and outsiders (Abhijit, 2013). Aware of their informational disadvantage, external investors demand a lemons premium that raises the required rate of return on external capital relative to its full information level (Abhijit, 2013). Faced with this problem, firm managers acting in the interests of existing shareholders follow a pecking order of financing choices (Abhijit, 2013).

The pecking order theory has two important empirical implications (Fowler, 2006). First, it predicts that internal cash should be the primary source of funds for firms (Fowler, 2006). Second, debt should be more common as an external financing choice than new equity, which should be used only after all other sources have been exhausted (Njoroge, 2012).

Mukherjee and Mahakud (2012) argue that an interesting discussion has been generated in recent studies designed to detect whether the tradeoff theory or the pecking order theory best describes the adoption of pecking order theory of corporations (Abhijit, 2013). The choice of debt for the fund is the crucial issue in the corporate finance policy (Abhijit, 2013). Taxes are deductible expense therefore are favorable for the firms when tax rates are high companies move to debt to reduce the burden of taxes (Abhijit, 2013). Management styles either conservative or aggressive may also be a reason which can support company to determine its debt level (Abhijit, 2013).

Organizations do not have ability to borrow money as much as they want in some cases (Abhijit, 2013). Many factors are involved which stops them to borrow but the main factor is the growth of the company because if the company growth is on the track their debt level would be high and if the company growth level is not on track then their debt level would be low (Abhijit, 2013). This is consistent with the dynamic view of Pecking order theory. So generally it can be concluded that when company increase their debt level there should be positive impact on growth of the firm (Atiyet, 2012).

2.2 Empirical Review

2.2.1 Taxation and performance of Small and medium enterprises in Kenya

The tax plays important role in the growth of Small and medium enterprises (MSEs). The role of MSEs is critical in pushing the socio-economic development agenda of the country further (Poutziouris et al., 2009). From economic point of view, taxes increase production cost of goods and services which would eventually leads to higher price of goods/services to the final consumers (Poutziouris et al., 2009). On the other hand, the revenue collected from taxes represents the major funding source for governmental expenditures (Baurer, 2005).

Bowen et al. (2009) indicated that taxes are perceived to be a major problem for both young and old firms. Therefore, taxation has showing a way towards impacting small and medium enterprises (Reijonen&Komppula, 2007).

In Nigeria, Adebisi and Gbegi (2013) conducted a study on the effect of multiple taxation on the performance of small and medium scale business enterprises in West African Ceramics Ajeokuta, Kogi State (Adebisi and Gbegi, 2013). The researchers derived their sample size to arrive at 74 and a self-administered questionnaire was used to collect data (Adebisi and Gbegi, 2013). The findings revealed that multiple taxation has negative effect on SMEs' performance and the relationship between SMEs' size and its ability to pay taxes is significant (Adebisi and Gbegi, 2013).

In addition, Ocheni (2015) conducted a study on the impact analysis of tax policy and the performance of small and medium scale enterprises in Nigerian Economy. Descriptive survey research design was adopted and the population comprised of sixty eight (68) SMEs currently operating in Kogi State and Abuja (Adebisi and Gbegi, 2013). The research hypotheses for this study were tested using z-test statistics to establish $p < 0.05$ significant differences (Adebisi and Gbegi, 2013). It was also revealed that there is no significant difference in the mean opinion scores of managers and accountants of the implications of tax policy on SMEs growth (Adebisi and Gbegi, 2013).

Taxes are considered to be very prohibitive and the general feeling among small entrepreneurs is that they see no benefits from their payment according to this study (Kristiansen, 2010). A fairly recent study in Tanzania also reveals that the majority of companies studied complained about the multiplicity of taxes, duties and fees (Kristiansen, 2010). According to this study, no less than 19 different compulsory contributions are paid to government institutions by firms (Kristiansen, 2010). Overall, small-scale entrepreneurs saw no significant changes in the current tax policies and bureaucratic maze, as compared with the pre-reform period (Kristiansen, 2010).

In Tanzania, Mungaya, Mbwanbo and Tripathi (2012) conducted a study on tax system impact on the growth of Small and Medium Enterprises (SMEs) in Shinyanga Municipality. The study was based on the survey of 120 managers/ Executive officers of the selected SMEs in the Shinyanga Municipal region in Tanzania (Mungaya, Mbwanbo and Tripathi, 2012). Data was analyzed by descriptive analysis method and findings were presented in terms of frequencies and percentage analysis (Mungaya, Mbwanbo and Tripathi, 2012). Findings indicate that majority of the respondents perceive the adverse impact of existing tax policies on the growth of SMEs and suggest for reforming the tax policies in the Country (Mungaya, Mbwanbo and Tripathi, 2012).

2.2.2 Licensing and performance of Small and medium enterprises in Kenya

Regulatory constraints also pose serious challenges to MSEs development (Kauffmann, 2007) and although wide-ranging structural reforms have led to some improvements, prospects for enterprise development remain to be addressed at the firm level (Wanjohi & Mugure, 2008). Licensing and registration requirements, as well as high cost of settling legal claims, and excessive delays in court proceedings adversely affect MSEs operations (Wanjohi & Mugure, 2008).

Tolentino (2005) argue that a legal and regulatory framework which results into excessively complex registration and licensing requirements and demands tedious and costly reporting practices is likely to impose constraints on the business activities in addition to placing heavy burden on entrepreneurs and their businesses (Tolentino, 2005). In addition to stimulating the creation of new enterprises and fostering their viability and growth, an environment that is supportive to MSEs is likely to contribute to the effectiveness and sustainability of support programs (Tolentino, 2005).

Generally centralization of licensing is considered to play a major part in bureaucratizing the whole process (Tolentino, 2005). The practice of renewing the business license according to interviewed entrepreneurs also increases the cost of MSEs remaining formal as it involves obtaining clearance from the same list of authorities that are involved in the initial process of granting the license (Tolentino, 2005). Apart from consuming entrepreneurs' time, this procedure encourages corrupt practices (Tolentino, 2005).

Examining laws, regulations and procedures were frustrated MSEs from competing on equal footing with more established business (Reijonen & Komppula, 2007). Laws and institutional procedures to protect rights and interest of local operators in the SMEs do not exist (Reijonen & Komppula, 2007). Compliance costs relate to the time and money involved in learning about and meeting government regulations and the cost of receiving informal penalty costs from things like favors requested by government officials (Reijonen & Komppula, 2007).

Rankhumise and Rugimbana (2010) in their study of licensing practices for small-scale firms has shown that the law does not discriminate against those small firms which are unable to meet set standards prescribed by the colonial government to discriminate against small

businesses(Nichter&Goldmark, 2009). Further, business licenses are too costly and most of the business codes prescribed cannot be attained by small businesses (Nichter&Goldmark, 2009). This point was further emphasized by Harper when he noted that, the restrictions that apply to large scale businesses were also applied to small businesses and tended to hamper the small ones (Nichter&Goldmark, 2009).

Kimuyu and Omiti (2010), in their study on the causes of business failure in Machakos District found the licensing of businesses to be defective because it allowed the wholesalers a retailer's license(Kimuyu and Omiti,2010). This do not only permit competition between these two but also creates undueadvantage because the wholesalers can engage in hoarding practices in order to sell at a premium to retailers or refuse to sell their fast moving goods(Kimuyu and Omiti,2010).On the other hand taxation policies pursued by the government are also to blame for poor performance especially because of profit margin reduction(Kimuyu and Omiti,2010). They complain that the industrialist is paying about 30 different taxes and wants the government to waive some of them (Kimuyu and Omiti,2010).

Kasiewicz and Kurklioski (2014) conducted a study on problems of regulations for SME in Poland. It recognizes the necessity for a radical restructuring the process of creating new regulations (Kasiewicz and Kurklioski, 2014).The study found that companies must exit current “dormant perception” about regulations (Kasiewicz and Kurklioski, 2014). Without the active attitudes of the main recipients of the regulations it is impossible to increase the quality of law- - making in Poland (Kasiewicz and Kurklioski, 2014). The present mechanism determining the regulatory process keeps insufficient system, thereby producing defective legislation, not following the changes in highly competitive markets and hampering the process of the development of companies and the Polish economy (Kasiewicz and Kurklioski, 2014). Potential initiatives to achieve a breakthrough of existing barriers for better regulations are presented(Kasiewicz and Kurklioski, 2014).

The study established that trade regulation and company law have a negative impact on small and medium-size businesses, being more pronounced on the trading volumes of younger enterprises (Oludele, 2014). Corruption in general, paying bribes to tax regulators, age of business owner and business location in the Littoral province impact negativelyon trading

volumes (Oludele, 2014). Total registration cost impacts negatively on business trading volumes which then impacts on business performance and growth (Oludele, 2014).

Bouazza, Ardjouman and Abada (2015) conducted a study on establishing the factors affecting the growth of small and medium-sized enterprises in Algeria. The study revealed that the external factors hampering the growth of SMEs include the legal and regulatory framework, access to external financing, and human resources capacities (Oludele, 2014). The internal factors comprise entrepreneurial characteristics, management capacities, marketing skills, and technological capacities (Oludele, 2014).

2.2.3 Training and performance of Small and medium enterprises in Kenya

Several studies have pointed that training contributes positively in the growth and performance of enterprises (Child and Lu, 2012). As a result of training, enterprise operators can obtain better management techniques, expand their entities, adopt new technology and build more business linkages (Child and Lu, 2012).

According to Cheung (2008), small business owners often lack experience and training in management of their businesses. Previous study by Wawire and Nafukho (2010) show that poor management is the second most cause of MSEs' failure after lack of enough funds. This is despite the fact that management has been established to be a very important aspect that affects the success of any given enterprise (Kayanula & Quartey, 2000). Despite the numerous institutions providing training and advisory services, there is still a skills gap in the MSE sector as a whole (Kayanula & Quartey, 2000). This is because entrepreneurs cannot afford the high cost of training and advisory services while others do not see the need to upgrade their skills due to complacency (King & McGrath, 2002). As a result, they cannot meet the future needs of society.

Ahmad (2009) adds that factors that hamper MSEs growth include a lack of abilities and skills. Ihua (2009) reports that one of the serious constraints on small business growth is lack of management skills, which results in the poor management actions taken by small business owners (Wawire & Nafukho, 2010). Literature makes it clear that 54 per cent of those who manage the MSEs had no training at all, while 38 per cent had some limited project management knowledge (Wawire & Nafukho, 2010). The literature is confirmed by findings of Mbonyane and Ladzani (2011) that almost no training was provided for MSE staff (Wawire & Nafukho, 2010).

Yahya, Othman and Shamsuri (2012) conducted a study on the impact of training on Small and Medium Enterprises (SMEs) performance. The methods used are descriptive analysis, Pearson correlation, and stepwise regression procedures and test (Yahya, Othman and Shamsuri, 2012). The data for the study were collected through mail questionnaires sent out to select SMEs. Of the total number 500 questionnaires mailed to SMEs in Malaysia, 27.6 percent responded and completed the questionnaires (Yahya, Othman and Shamsuri, 2012). The empirical information resulted from analyzing the data obtained from the SMEs, suggests that manager's, enterprises and external characteristics affect the demand for training (Yahya, Othman and Shamsuri, 2012). It was also found that training has a positive impact on SMEs performance (profits, revenues and size)(Yahya, Othman and Shamsuri,2012).

Macharia (2013) conducted a study on the effects of training on the performance of small and medium enterprises SMEs in Mt. Kenya region. Structured and unstructured questionnaires were used to collect primary data. (Yahya, Othman and Shamsuri, 2012).The target population was 500 enterprises operating in Nyeri and Embu Districts(Macharia, 2013).The research was focused on 100 employees (owners or managers) who formed the sample size (Macharia, 2013). The results revealed that lack of training affects the performance of the small and medium size business enterprises (Macharia, 2013). Training is essential for the smooth operations and running of these enterprises and without training no enterprise will prosper (Yahya, Othman and Shamsuri, 2012).

Njoroge and Gathungu (2013) conducted a study on the effect of entrepreneurial education and training on development of small and medium size enterprises in Githunguri District- Kenya. The study used an exploratory research design. The target population was all the 1670 legally registered SMEs in Githunguri district(Njoroge and Gathungu, 2013). The study established that after the training entrepreneurs were able to market their products within the district but not around the country (Njoroge and Gathungu,2013). The results of the study revealed that the entrepreneurs were able to do simple daily book keeping of business transactions but were not able to do complex financial statements (Njoroge and Gathungu,2013). This leads to the conclusion that even though the entrepreneur may be reporting an increase in sales and profits, and may seem to be registering growth, lack of training on financial, strategic management and marketing will mean that the SME will not grow beyond the first stage of enterprise development

to other stages and will hence eventually fail within its first five years of existence (Njoroge and Gathungu,2013).

2.2.4 Capital Financing and performance of Small and medium enterprisesin Kenya

Financial constraint remains a major challenge facing SMEs in Kenya (Wanjohi&Mugure, 2008). Finding start-up finance for the business is the biggest hurdle that many entrepreneurs go through (Wanjohi&Mugure, 2008). Even after getting started, getting sufficient finance to sustain business growth is another problem(Wanjohi&Mugure, 2008). Studies undertaken by Kimuyu and Omiti (2010) for Kenya Rural Enterprise Programme (K-Rep) confirm that a major constraint within the small business enterprise sector is financing. Small enterprise owners cannot easily access finance to expand business and they are usually faced with problems of collateral, feasibility studies and the unexplained bank charges (Gibb and Li,2003). In South Africa, Acs and Karlsson (2009) found finance as cited as one of the most prominent constraints. Access to finance is essential for improving SME competitiveness, as SMEs have to invest in new technologies, skills and innovation (Gibb and Li,2003).Access to finance issues cannot be resolved by implementing financing schemes or programs in a vacuum (Gibb and Li,2003). There are institutional issues covering a spectrum from the macro level to the micro level, which are accompanied by capacity deficiencies (Pissarides, 2011).

Smolarski and Kut (2011) conducted a study on the impact of venture capital financing method on SME performance. The study examined how equity based-venture funding methods affect SME performance(Smolarski and Kut, 2011).Venture capital financing was divided into several categories: incremental financing where firms receive their venture capital funding in portions, lump-sum funding where firms receive their funding in one lump-sum, syndication where two or more external investors participate in a single financing round and non-syndicated financing where one investor participates in a single financing round (Smolarski and Kut, 2011). The results show that type of equity-based venture capital financing affect performance. Annual sales growth rate and annual turnover were used as proxies for performance (Smolarski and Kut, 2011).

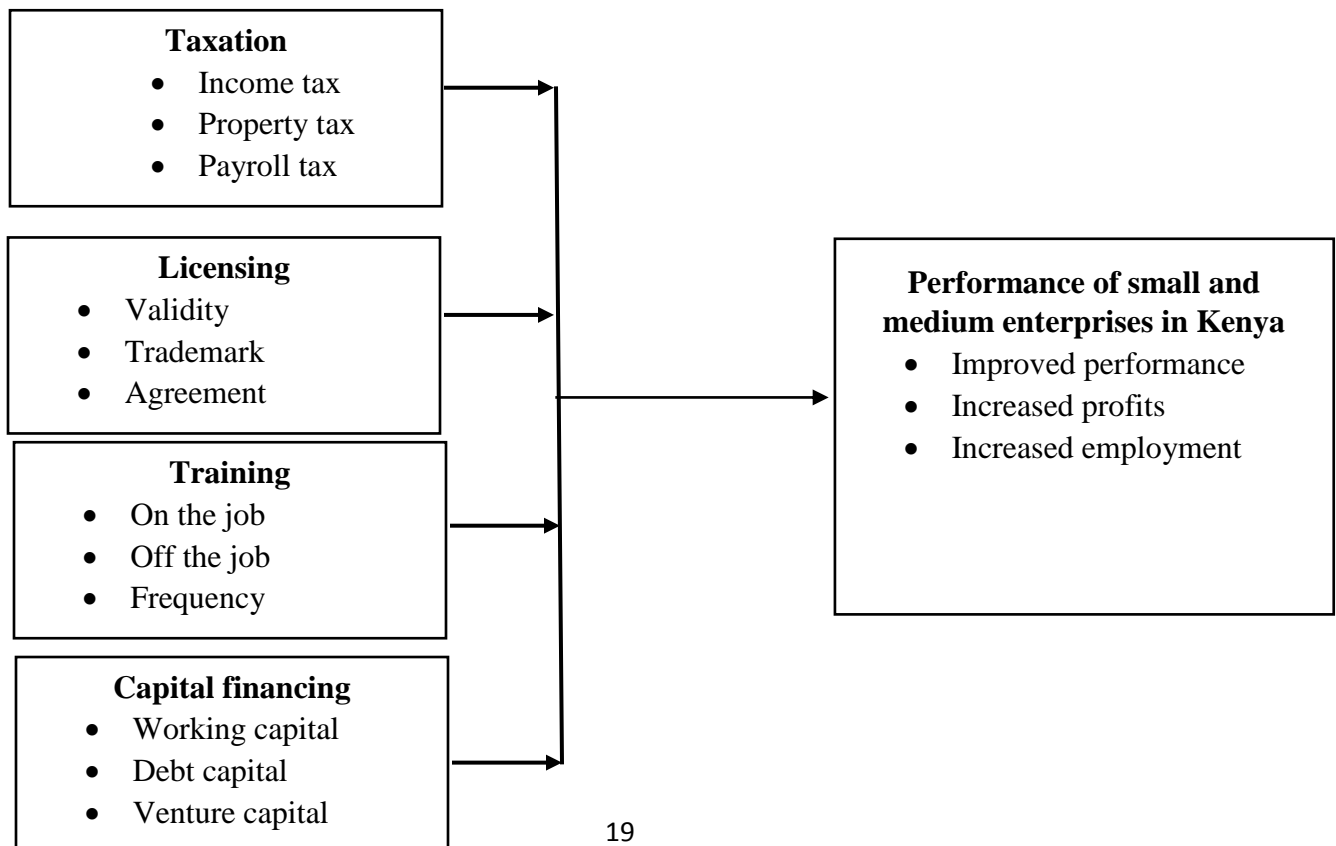
2.3 Summary and Research Gaps

Tolentino (2005) argues that various aspects that are considered while measuring the performance of SMEs are sales, employees, assets, profits, equity and others. The time variation is determined to be varying from one to several years (Shariff, Chea&Juhary, 2013).

Measurable characteristics like changes in turnover, change in productivity, and change in employment, change in sales, profit and total assets are different ways of measuring firm performance(Rochaa, 2014). Rochaa (2014) noted that when compared to sales, employment is considered to be effective in terms of reliability and volatility as owners-managers make sure that the demand has expanded to certain level before personnel are recruited. Peres and Stumpo (2010) conducted 50 case studies on small businesses units of Asia, Africa, Europe, and America by means of various measures of performance.

Chong (2008) conducted a study on measuring performance of small-and-medium sized enterprises. Using the procedures stipulated by the grounded theory, this study reported the findings of in-depth semi-structured interviews with five owners-managers of small and medium sized enterprises (SMEs) on how performance is being measured.

2.4 Conceptual Framework



Independent Variables

Dependent Variables

Figure 2.1 Conceptual Framework

2.5 Operationalization of Variables

Operationalization of this study variables will be based on the research questions whereby the study will investigate the relationship that exist between the independent variables and dependent variable. The independent variables are taxation; licensing; training and capital financing. The study will also provide the measurement, level of scale, data collection, and approach of analysis, type of analysis and level of analysis of the variables to determine the operationalization.

2.6 Chapter Summary

The chapter has discussed literature review in order to trace a path to the research topic and to gain an understanding of the theory in order to adequately explore it. Based on the literature review, the researcher was able to summarize the ideas and knowledge in the research area and thereafter suggest the way forward. In the discussion the researcher has discussed the theoretical literature review and empirical literature review, summary of gaps to be filled, the conceptual framework, operationalization of variables and the chapter summary.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

This chapter assisted the researcher to look into the following research design, target population, sampling procedure to be used, methods of data collection, validity and reliability of data collection instruments, methods of data analysis, ethical considerations and summary of the chapter.

3.1 Research Design

The research was conducted using descriptive research design. This research design provided explanation between the independent variables and the dependent variable. It further provided focus on current conditions of the problem being investigated. (Mugenda and Mugenda 2003)

According to Kothari, (2001) descriptive research design includes facts, findings and inquires of different kind and its major purpose is the description of the state of affair as it exists at the present. The researcher prefers the approach since it is appropriate for the study established and reported the impact of government policies and performance of small medium enterprises in Embu town. The research design helped the researcher understand well the characteristics of the population although the findings were generalized to other situation but the researcher focused on Embu town.

3.2 Target Population

According to Burns and Groove (2013), a population is defined as all elements (individuals, objects and events) that meet the sample criteria for inclusion in a study. The accessible population was 150 from the small and medium enterprises in Embu town.

Table 3.1 Target Population

Population category	Frequency	Percentage
Cafes	5	3
Cosmetic shops	15	10
General merchants	30	20
Boutiques	5	3
Hardware's	20	13
IT centers	50	34
Dispensing chemist	25	17
Total	150	100

3.3 Sample and Sampling Technique

Sampling is the process of selecting a number of individual to present a large group from which they are selected. Stratified random sampling was employed in the study. This was appropriate because it was possible to break the population of interest into strata and therefore the researcher used the information from the sample to make inferences applicable to the whole population which the sample is drawn. The sample size of the study was 45 respondents which were 30% of the target population as recommended by Mugenda and Mugenda (2013).

Table 3.2 Sample Size

Population category	Frequency	Percentage
Cafes	2	3
Cosmetic shops	5	10
General merchants	9	20
Boutiques	2	3
Hardware's	6	13
IT centers	14	34
Dispensing chemist	7	17
Total	45	100

3.4 Instruments

The researcher used questionnaires to collect data because they are simpler to formulate and permits greater depth of response when a respondent is allowed to give a personal response in case of unstructured (open ended) and structured (close ended) questions.

3.5 Pilot Study

To achieve content validity and reliability, assistance from the experts on various sections in the questionnaires as instrument for data collection will be sought and pre-test the questionnaire with five (10) management staff of County Assembly before actual data collection took place.

3.5.1 Validity

Validity refers to the degree to which result obtained from analysis of the data actually represents phenomena understanding. To achieve content validity the study employed two sections questionnaires as the only instrument for the data collection. On the other hand face validity is achieved by the use of the professional in the relevant areas of the study. In the case the questionnaire is thoroughly scrutinized by the supervisor to assess the instrument sustainability in measuring the concept.

3.5.2 Reliability Test

Reliability is a measure of the degree to which the research instrument viewed constitutes result. To achieve is, the questionnaires were designed with systematic and comprehensive questions to

enable respondent to answer without much reference. The questionnaire is pre tested through pilot project before actual data collection took place.

3.6 Data Collection Procedure

The questionnaires were the most effective method of data collection for this study since its cost effective (cheap), the respondents have adequate levels of education and hence filling them was easy. Due to constraints of time this method was effective to collect the data. It is expected that the response rate to be achieved was over 90%.

Before distribution of the questionnaires permission was sought from the relevant authorities to aid in data collection. Permission is necessary as one might require to get clarification later which were easier having obtained prior permission.

3.7 Data Analysis and Presentation

All the data collected is first coded. Coding is the transition of data collected for research into a machine-readable form (Mugenda and Mugenda, 2013). Thus, the product of the coding process is the conversion of the data item into numerical scales. After making a set of readable data from the study, the next stage is data clearing. Data clearing is necessary because no matter how careful the data has been altered some errors are inevitable (Mugenda and Mugenda, 2003).

Computer excel software program is used to enable analysis. The researcher assigned codes to the items in the questionnaires which were used to enter data into computer, distribution tables, pie charts and graphs were used to present data while frequencies and percentages obtained were used to answer the research questions. Percentages, tables and figures were emphasized because they were analyzed, interpreted and conclusion and recommendations were made from the tables.

3.8 Ethical considerations

The researcher was strictly ethical and observe the following; informed consent; voluntary participation; confidentiality; privacy and anonymity of the research. Before the collection of the data a consent letter to the respondents was done to introduce the researcher and inform them on the intention of the research. For the relevance of the research voluntary participation was encouraged in order to get the intended information from the respondents. Independence of the respondents shall also be observed. Any information given by the respondent shall be handled carefully and confidentially. Prior revelation of any information about the research consent shall

be sought from the respondents. The information provided by the respondents shall be held with high levels of confidentiality and shall only be used for academic purposes. Upon completion of the research the research findings shall be shared with the respondents if they are in accordance with their expectations. Where findings indicate alarming and sensitive information the special considerations were made before such release is done.

3.9 Chapter Summary

Chapter three has discussed the research methodologies disclosing the research design, target population, sampling procedure to be used, methods of data collection, validity and reliability of data collection instruments, methods of data analysis, and ethical considerations. Descriptive research design was used in the study because it is very useful in describing the variables without the researcher's influence. The design was the most appropriate because of its suitability for survey methods in data collection, analysis and also allowed the use of research instruments like questionnaire.

CHAPTER FOUR

DATA ANALYSIS, PRESENTATION AND INTERPRETATION

4.1 Introduction

This chapter is concerned with the data analysis, presentation of the research findings, interpretation and summary of data analysis.

4.2 Presentation of Findings according to research questions

4.2.1 Response rate on Respondents

The researcher sought to find out the response rate to the questionnaires.

Table 4.1 Response Rate

Response	Frequency	Percentage
Responded	38	85
Not Responded	7	15
TOTAL	45	100

Table 4.1 show that 85% of respondent answered the question fully while 15% of the respondent did not respond. This showed that the response rate was adequate for the study.

4.2.2 Gender of respondents

The study sought to investigate the gender of the respondents.

Table 4.2 Gender of respondents

Gender	Frequency	Percentage
Male	30	78
Female	8	22
TOTAL	38	100

Table 4.2 indicated that 78% of the respondents were males and 22% of the respondents were female. The researcher found out that quite a large number of the employees are males thus there is gender imbalance in the business entrepreneurs. This was an indication that majority of the business people in Embu town were males. This was also a clear indication that there was no gender parity in the SMEs.

4.2.3 Age Brackets of the respondents

The study aimed at finding out the ages of the employees in the organization.

Table 4.3 Ages of the Respondents

Age-Bracket	Frequency	Percentage
18-25	5	14
26-35	17	44
36-45	10	27
46-55	4	11
56 and above	2	4
TOTAL	38	100

Table 4.3 showed that the age bracket that has the highest number of employees is that of between the age 26-35 whose percentage is 44% and the age bracket that had the least number of employees is that of 56 and above. The information showed that, most of the respondents who carried out SMEs were the youth, this was an indication that the youth were business oriented people.

4.2.4 Education level of the respondents

The study aimed at establishing the education level of the employees in the organization

Table 4.4 Education Level of the Respondents

Education level	Frequency	Percentage
Secondary School	6	15
Diploma Level	22	58
Degree Level	9	24
Masters	1	3
TOTAL	38	100

Table 4.4 indicated that 58% of the employees had attained education up to Diploma level, 15% of the employees had attained education up to secondary school level, 24% of the employees had attained education up to degree level and 3% of the employees had attained education up to masters' level. The researcher found out that majority of the respondents who owned SMEs were educated and that they had the business skills to undertake their business. This was evidence that the respondents had the knowhow of carrying out their business.

4.2.5 TAXATION

A tax is a financial charge or other levy imposed upon a taxpayer by the state or the functional equivalent of a state to fund various public expenditures.

The study aimed at investigating if there were any tax incentives to the consumers. The results are shown in figure 4.1

Figure 4.5 are there any tax incentives for consumers?

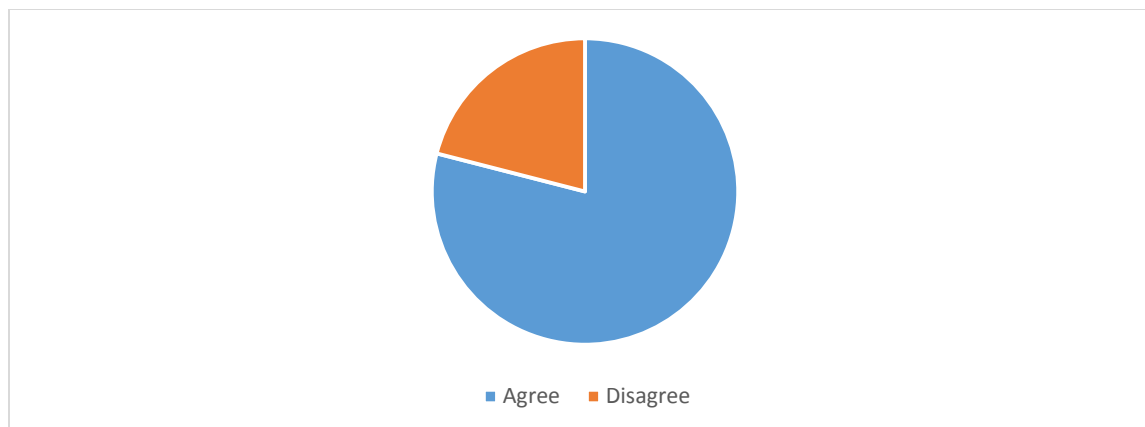


Figure 4.5 indicated 79% of the respondents indicated that there were tax incentives for consumers whereas 21% of the respondents indicated that there were no tax incentives for consumers. The researcher found out that, majority of the employees indicated that the tax incentives on consumers was there hence the consumers paid taxes for the purchases they made in every business apart from pharmaceuticals which are tax free.

4.2.6 Satisfaction in relation to the taxation policies put in place by the government to the growth of your respective businesses

The study aimed at establishing the satisfaction of tax policies put in place by the government to the growth of the business. The results are shown in Table 4.5.

Table 4.5 Satisfaction in relation to the taxation policies put in place by the government to the growth of your respective businesses

Response	Frequency	Percentage
Extremely satisfied	10	26
Satisfied	15	40
Neutral	8	21
Dissatisfied	5	13
Total	38	100

Table 4.5 showed that 40% of respondent were satisfied, 26% of respondent were extremely satisfied, 21% of respondent were neutral while 13% dissatisfied. These implied that majority of

the respondents were satisfied with the tax policies the government had put in place while others felt that the taxation policies were very strict for the SMEs.

4.2.7 LICENSING

The study aimed at establishing the rate at which licensing affected the performance of SMEs. The results are shown in Table 4.6

Table 4.6How effective is licensing in your business?

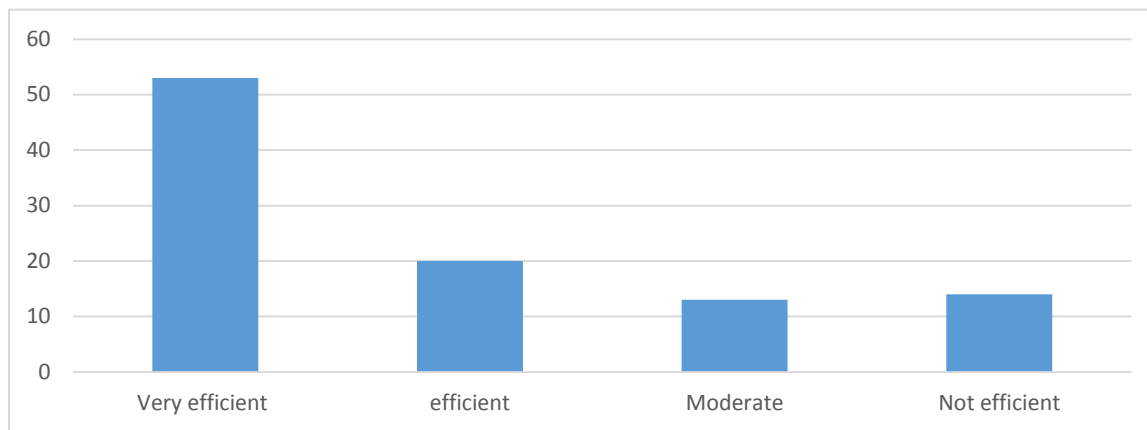


Table 4.6 indicated that 53% of the respondents indicated that licensing was very efficient for the business, 20% of the respondents indicated that licensing was efficient for the business, 13% of the respondents indicated that licensing was moderate for the business, 14% of the respondents indicated that licensing was not efficient for the business. This was a clear indication that licensing was appropriate for the running of the business since businesses without licenses were closed down.

4.2.7Is there good protection of the SMEs by the county government on licensing?

The study sought to investigate on if there was any protection of SMEs upon licensing of the business.

Table 4.7Is there good protection of the SMEs by the county government on licensing?

Response	Frequency	Percentage
Yes	25	66

No	13	43
Totals	38	100

Table 4.7 showed that majority, 66% of the respondent indicated that there was protection from the county government when the business is licensed while 43% indicated that there was no protection of the business once the business was licensed. This was an indication that licensing was effective for the business since the government was able to identify the kind of business was being carried out hence protecting the business.

4.2.8 How satisfied are you with the licensing measures existing in your county?

The study aimed at establishing the satisfaction of licensing measures in Embu town. The results are shown in Table 4.8.

Table 4.8 How satisfied are you with the licensing measures existing in your county?

Response	frequency	percentage
Extremely satisfied	16	42
Satisfied	9	24
Neutral	10	26
Dissatisfied	3	8
Total	38	100

Table 4.8 indicated that 42% of the respondents were extremely satisfied with the licensing measures, 24% of the respondents were satisfied with the licensing measures, 26% of the respondents were neutral with the licensing measures, 8% of the respondents were dissatisfied with the licensing measures. This showed that the business people in Embu town were comfortable with the licensing measures while others were not comfortable since the charges were the same for all the SMEs which made some feel that their business are charged highly.

TRAINING

4.2.10 Training

The study aimed at establishing the level of performance that was expected from training. The results are shown in Table 4.9.

Table 4.9 Level of performance expected from training

Response	Frequency	Response
High performance	10	26
Moderate performance	28	74
Poor performance	0	0
Total	38	100

Table 4.9, indicated that 26% of the respondents indicated that the level of performance was high while 74% of the respondents indicated that the level of performance was moderate. This was a clear indication that training had a positive impact on the business since it improved performance.

4.2.11 Rating of the effectiveness of training in your business in relation to performance

The study sought to investigate the rating of the effectiveness of training in the respondents business in relation to performance.

Figure 4.2 Rating of the effectiveness of training in your business in relation to performance

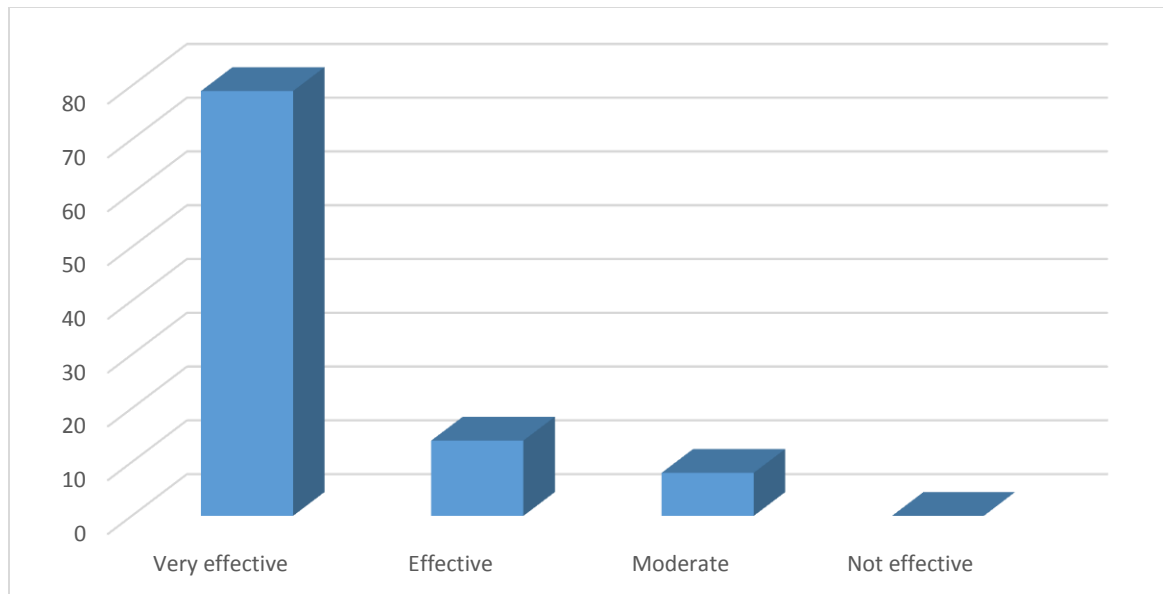


Figure 4.2 indicated that 79% of the respondents indicated that training was very effective on performance, 14% indicated that training was effective on performance while 8% indicated that training was a moderate effect on performance. This was a clear indication that training was efficient for the business operations in Embu town.

CAPITAL FINANCING

4.2.12 Does the proprietor/supervisor discuss with you exhaustively the financial performance on agreed individual targets

The study sought to investigate if proprietorship/supervisor discuss with the respondents exhaustively the financial performance.

Table 4.10 Does the proprietor/supervisor discuss with you exhaustively the financial performance on agreed individual targets

Response	Frequency	Percentage
Yes	25	66
No	13	34
Total	38	100

Table 4.10 indicates that majority of the respondents 66% indicated that they discussed exhaustively with the proprietors/supervisors on financial performance while 34% indicated that they do not discuss. This was an indication that the financial performance of the SMEs was crucial since the respondents followed up their financial performance so as to identify if they are making profits or losses.

4.2.13 Satisfaction of work place capital financing in SMEs

The study aimed at finding out whether consumers are satisfied with the work place capital financing in SMEs.

Table 4.11 Satisfaction of work place capital financing in SMEs

Response	frequency	percentage
Extremely satisfied	10	26
Satisfied	15	40
Neutral	8	21
Dissatisfied	5	13
Total	38	100

Table 4.11 showed that 40% of respondent were satisfied, 26% of respondent were extremely satisfied, 21% of respondent were neutral while 13% dissatisfied. These implied that the work place capital financing was important for the respective business. This was an indication that the capital financing of the business was crucial for the running of the business.

4.2.14 Are you involved in determining on how capital financing is practiced in your business?

The study aimed at investigating if the respondent is involved in determining how capital financing is practiced in their businesses.

Figure 4.3 Are you involved in determining on how capital financing is practiced in your business?

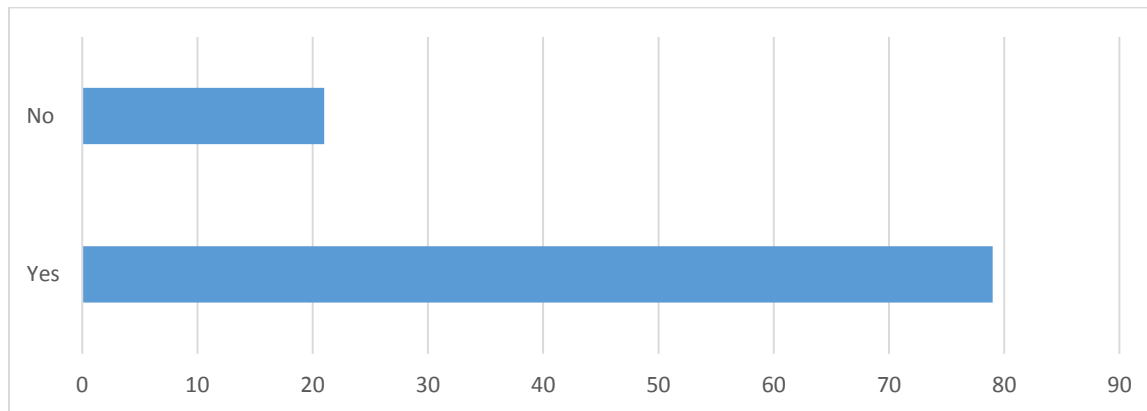


Figure 4.3 indicates that majority of the respondents, 79% indicated that they were fully involved in determining how capital financing is practiced in their business while 21% indicated that they were not involved in determining how capital financing is practiced in their business. This was an indication that for one to carry out a business they must get involved in determining the capital financing of the business.

4.2 Limitations of the Study

The study was faced by a few limitations, some of the respondents feared giving out the information required but the researcher assured them of confidentiality and that the study was solely used for academic purposes. Some of the respondents had busy schedules but the researcher left the questionnaires for a period of two weeks. The respondents filled the questionnaires at their own free time.

4.3 Chapter Summary

This chapter contains the presentation of the research findings, limitations of the study and the chapter summary. The next chapter consists of the summary of the findings, recommendations and conclusions of the study.

CHAPTER FIVE

SUMMARY, RECOMMENDATIONS AND CONCLUSION

5.0 Introduction

This chapter comprised of the summary of the major findings, Conclusions and recommendations.

5.1 Summary of Findings

85% of respondent answered the question fully. This showed that the response rate was adequate for the study. 78% of the respondents were males. This was an indication that majority of the business people in Embu town were males. This was also a clear indication that there was no gender parity in the SMEs. 44% and the age bracket that had the least number of employees is that of 56 and above. The information showed that, most of the respondents who carried out SMEs were the youth, this was an indication that the youth were business oriented people. 58% of the employees had attained education up to Diploma level. The researcher found out that majority of the respondents who owned SMEs were educated and that they had the business skills to undertake their business. This was evidence that the respondents had the knowhow of carrying out their business.

Majority, 79% of the respondents indicated that there were tax incentives for consumers. The researcher found out that, majority of the employees indicated that the tax incentives on consumers was there hence the consumers paid taxes for the purchases they made in every business apart from pharmaceuticals which are tax free. 40% of respondent were satisfied. These implied that majority of the respondents were satisfied with the tax policies the government had

put in place while others felt that the taxation policies were very strict for the SMEs. Ocheni (2015) conducted a study on the impact analysis of tax policy and the performance of small and medium scale enterprises in Nigerian Economy. It was also revealed that there is no significant difference in the mean opinion scores of managers and accountants of the implications of tax policy on SMEs growth (Adebisi and Gbegi, 2013).

Majority, 53% of the respondents indicated that licensing was very efficient for the business. This was a clear indication that licensing was appropriate for the running of the business since businesses without licenses were closed down. 66% of the respondent indicated that there was protection from the county government when the business is licensed. This was an indication that licensing was effective for the business since the government was able to identify the kind of business was being carried out hence protecting the business. 42% of the respondents were extremely satisfied with the licensing measures. This showed that the business people in Embu town were comfortable with the licensing measures while others were not comfortable since the charges were the same for all the SMEs which made some feel that their business are charged highly. Rankhumise and Rugimbana (2010) in their study of licensing practices for small-scale firms has shown that the law does not discriminate against those small firms which are unable to meet set standards prescribed by the colonial government to discriminate against small businesses. This point was further emphasized by Harper when he noted that, the restrictions that apply to large scale businesses were also applied to small businesses and tended to hamper the small ones (Nichter & Goldmark, 2009).

Majority, 74% of the respondents indicated that the level of performance was moderate. This was a clear indication that training had a positive impact on the business since it improved performance. 79% of the respondents indicated that training was very effective on performance. This was a clear indication that training was efficient for the business operations in Embu town. Njoroge and Gathungu (2013) conducted a study on the effect of entrepreneurial education and training on development of small and medium size enterprises in Githunguri District- Kenya. The results of the study revealed that the entrepreneurs were able to do simple daily book keeping of business transactions but were not able to do complex financial statements (Njoroge and Gathungu, 2013). This leads to the conclusion that even though the entrepreneur may be reporting an increase in sales and profits, and may seem to be registering growth, lack of training on financial, strategic management and marketing will mean that the SME will not grow beyond

the first stage of enterprise development to other stages and will hence eventually fail within its first five years of existence (Njoroge and Gathungu,2013).

Majority of the respondents 66% indicated that they discussed exhaustively with the proprietors/supervisors on financial performance .This was an indication that the financial performance of the SMESs was crucial since the respondents followed up their financial performance so as to identify if they are making profits or losses. 40% of respondent were satisfied. These implied that the work place capital financing was important for the respective business. This was an indication that the capital financing of the business was crucial for the running of the business.79% indicated that they were fully involved in determining how capital financing is practiced in their business. This was an indication that for one to carry out a business they must get involved in determining the capital financing of the business. Financial constraint remains a major challenge facing SMEs in Kenya (Wanjohi&Mugure, 2008). Finding start-up finance for the business is the biggest hurdle that many entrepreneurs go through (Wanjohi&Mugure, 2008). Even after getting started, getting sufficient finance to sustain business growth is another problem (Wanjohi&Mugure, 2008). Studies undertaken by Kimuyu and Omiti (2010) for Kenya Rural Enterprise Programme (K-Rep) confirm that a major constraint within the small business enterprise sector is financing.

5.2 Conclusion

5.2.1 Taxation

The study concluded that SMEs are critical in assertive the socio-economic growthprogramme of the country. Therefore, arrangement of the tax system to the setting specific SMEsdevelopmentrequirements can be carefulasignificantschedule for the policy makers. Inspiring the formation of new initiatives and development their practicality and growth, andsetting that is helpful to SMEs is likely to contribute to the effectiveness and sustainability of support programs.

5.2.2 Licensing

The study concluded that afavorable and aiding policy and regulatory environs are therefore vital to the growth of SMEs. The practice of reintroducing the commercial license increases the cost of MSEsremaining formal as it involves obtaining clearance from the same list of authorities that

are involved in the initial process of granting the license. Apart from consuming entrepreneurs' time, this procedure encourages corrupt practices.

5.2.3 Training

The study concluded that training has an important influence on contributor physiognomies and final applicant outcomes. As a result of exercise, enterprise workers can obtain better administration methods, expand their entities, adopt new know-how and build more business connections.

5.2.4 Capital Financing

The study concluded that Small enterprise possessors cannot effortlessly access business to enlarge commercial and they are typically faced with problems of security, viability studies and the unexplained bank charges. This means that they cannot access finance to enable them to grow.

5.3 Recommendations

5.2.1 Taxation

The study recommends that the for SMEs key deliberations are to diminish organizational problem while safeguarding obedience, counting bearing in mind the drivers and impacts of operating in the informal economy. Without the active insouciances of the main recipients of the regulations it is impossible to increase the quality of law-making in Kenya.

5.2.2 Licensing

The study recommends that the current instrument causal the regulatory process keeps insufficient system, thereby producing defective legislation, not following the vicissitudes in highly competitive markets and hindering the procedure of the development of companies and the Polish economy. Potential initiatives to achieve a breakthrough of existing barriers for better regulations are presented.

5.2.3 Training

The study recommends that nonexistence of exercise affects the presentation of the small and medium size business initiatives. Training is vital for the flat processes and consecutively of these enterprises and without exercise no initiative will prosper.

5.2.4 Capital Financing

The study recommends that admission to finance is vital for educating SME keenness, as SMEs have to invest in new machineries, skills and innovation. Access to economics issues cannot be resolute by executing funding arrangements or agendas in a blankness.

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APPENDIX I: CONSENT LETTER

Martha Lily NjeriNjeru

ODL-BML/11/00526/1/2017

Management University of Africa

Embu Branch

7th August, 2018

Dear Respondents,

RE: INTRODUCTION LETTER TO RESPONDENTS

I am an undergraduate student at Management University of Africa. I am required to submit a research project report on “Government policies and performance of small and medium enterprises in Kenya. (A Case of Embu Town)” as part of requirement for the award of Bachelor Degree of management and leadership Studies.

To achieve the objectives of the study I am required to collect information from Embu town SMEs and you have been chosen as respondents.

I kindly request you to fill the attached questionnaire to generate data required for this study. The information I will obtain from you or your organization will be used for this academic purpose only and will be kept confidential. The results of the survey will be in summary form and will not disclose any individual or organization information in any way.

Your cooperation will be highly appreciated.

Thank you in advance

Martha Lily NjeriNjeru

APPENDIX II: QUESTIONNAIRES

Please tick where applicable. Answer the questions as honestly as possible. The information gathered will be kept confidential. The questionnaire is purely for academic purpose.

SECTION A: PERSONAL BACKGROUND

1. Gender

- a) Male ()
- b) Female ()

2. Age in complete years

- a) Below 25 years ()
- b) 26-35 years ()
- c) 36-45 years ()
- d) 46-55 years ()
- e) Above 55 years ()

3. Level of education

- a) Primary ()
- b) Secondary ()
- c) College ()
- d) University ()
- e) Others (); please specify.....

4. State the number of complete years you have been in the business industry

- a) Less than 2 years ()
- b) Between 2&5 ()
- c) Between 5&10 ()
- d) Over 10 years ()

SECTION B: TAXATION

5. How does taxation affect the rate of growth of your business?.....

.....

.....

6. To what extent do taxation policies affect the daily running of your business?.....

.....

.....

7. Are there any tax incentives for consumers?

- a) Yes ()
- b) No ()

If yes explain.....

.....

8. How satisfied are you in relation to the taxation policies put in place by the government to the growth of your respective businesses?

- a) Extremely satisfied ()
- b) Satisfied ()
- c) Neutral()

- d) Dissatisfied ()

SECTION C: LICENSING

9. How effective is licensing in your business?

- a) Very efficient ()
b) Efficient ()
c) Moderate ()
d) Not efficient ()

10. Is there good protection of the SME's by the county government on licensing?

- a) Yes ()
b) No ()

If no give reasons.....

.....

11. How does licensing affect service delivery in your business?.....

.....

.....

12. How satisfied are you with the licensing measures existing in your county?

- a) Extremely satisfied ()
b) Satisfied ()
c) Neutral ()
d) Dissatisfied ()

SECTION D: TRAINING

13. What level of performance would you expect from training in your organization/business?

- a) High performance ()
- b) Moderate performance ()
- c) Poor performance ()

14. How does training affect the performance of your business?.....

.....

.....

.....

15. How would you rate the effectiveness of the training in your business in relation to performance?

- a) Very effective ()
- b) Effective ()
- c) Moderate()
- d) Not effective ()

16. Whattype of training is mostly used in your business?

- a) On the job training ()
- b) Off the job training ()

SECTION B: CAPITAL FINANCING

17. How would you rate the capital financing in your business?

- a) Excellent ()
- b) Good ()
- c) Relativelygood ()
- d) Poor ()

18. Does the proprietor/supervisor discuss with you exhaustively the financial performance on agreed individual targets?

- a) Yes ()
- b) No ()

If no explain.....

19. How are you satisfied with the work place capital financing in your respective business?

- a) Extremely satisfied ()
- b) Satisfied ()
- c) Neutral ()
- d) Dissatisfied ()

20. Are you involved in determining on how capital financing is practiced in your business?

- a) Yes ()
- b) No ()

If no explain.....

